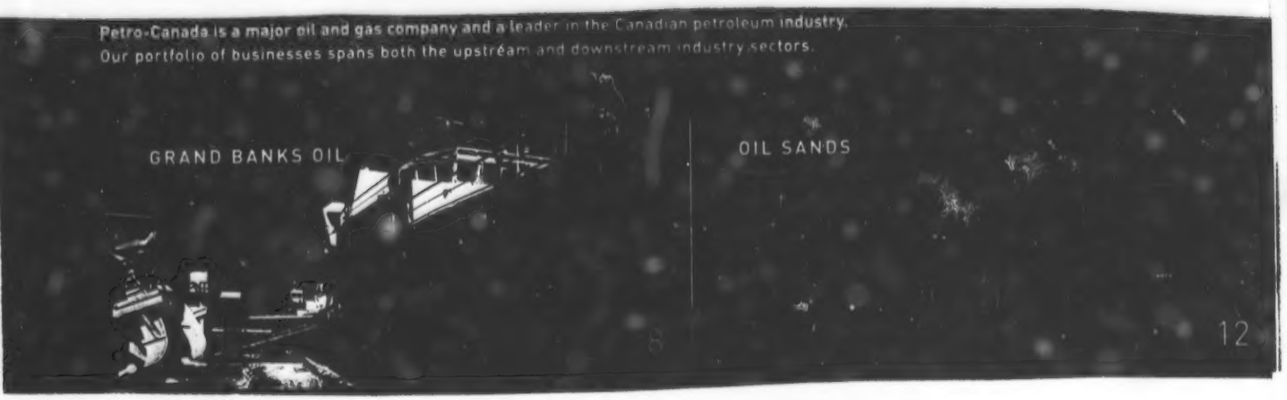
PETRO-CANADA OFFERS INVESTORS THE BEST LEVERAGE
TO OIL DEVELOPMENT OFFSHORE NEWFOUNDLAND.
WITH OUR GROWING EXPOSURE TO GRAND BANKS OIL,
OIL SANDS OPPORTUNITIES, AND OUR STRENGTH IN NATURAL
GAS, REFINING, MARKETING AND LUBRICANTS, WE
ARE POISED FOR PROFITABLE GROWTH IN THE DECADE AHEAD.
FOLD-OUT
THE *BURIN SEA* NAVIGATES THE NARROWS OF ST. JOHN'S
HARBOUR ON ITS WAY TO OPEN WATERS, CARRYING DRILLING
EQUIPMENT AND SUPPLIES TO THE TERRA NOVA OIL FIELD.

CORE BUSINESSES AT A GLANCE

Petro-Canada is a major oil and gas company and a leader in the Canadian petroleum industry. Our portfolio of businesses spans both the upstream and downstream industry sectors.



Business Description

- Explores for, develops, produces and markets offshore oil
- 20% interest in the producing Hibernia field
- 29% interest in the Terra Nova oil development
- Owns major interests in other significant discoveries, including White Rose (17.5%) and Hebron/Ben Nevis (23.9%), as well as substantial exploration acreage

Strategy

- Establish a light oil production base of at least 70 000 barrels per day by 2005 and sustain it through ongoing development of other fields

1999 Achievements

- Petro-Canada's Hibernia production averaged 20 000 barrels per day, (30 000 barrels per day in November and December)
- Revised Hibernia's ultimate reserves to 730 million barrels from 615 million barrels
- Subsea "glory holes" in the Terra Nova field completed, preparatory drilling begun, construction of vessel and topsides progressed
- Five delineation wells drilled — three at White Rose and two at Hebron/Ben Nevis
- Secured new exploration acreage in the Flemish Pass Basin

Plans for 2000

- Increase Petro-Canada's share of Hibernia production to 27 000 barrels per day
- Additional Hibernia drilling, including the first Avalon formation wells
- Advance Terra Nova toward first oil
- Drill at least four exploration or delineation wells
- Begin engineering and design for potential White Rose development

Business Description

- 12% interest in Syncrude — the world's largest oil sands development
- Owns working interests from 25% to 100% in several large *in situ* oil sands leases, including 100% working interest at MacKay River

Strategy

- Participate in the Syncrude mine and upgrading expansion, increasing our production to more than 50 000 barrels per day by 2007

1999 Achievements

- Petro-Canada's share of record Syncrude production reached 26 700 barrels per day
- Reduced Syncrude unit operating costs to $12.83 per barrel
- Continued drilling and evaluation of MacKay River oil sands leases

Plans for 2000

- Participate in the Syncrude expansion, increasing our share of production to 30 000 barrels per day
- Actively participate in development of northern Alberta's vast oil sands resources
- Continue evaluation of MacKay River oil sands leases and advance development plans

Business Description

- Explores for, produces and markets natural gas and associated liquids
- Among the largest producers in Western Canada, with 1999 daily sales of 719 million cubic feet of gas and 11 700 barrels of natural gas liquids

Strategy

- Profitably sustain the Western Canada gas business through focused exploration and development in our core areas — the Alberta Foothills, west-central Alberta and northeastern British Columbia

1999 Achievements

- Gas production rates held stable despite net sales and lower capital spending
- Added 277 billion cubic feet of proved gas reserves through the drill bit, replacing 106% of 1999 production
- Continued exploration and development success in the Alberta Foothills
- Continued disposition of non-core oil properties

Plans for 2000

- Continue focus on gas business profitability
- Build on recent success in the Alberta Foothills and increase exploration in northeastern British Columbia
- Complete disposition of non-core oil properties

Business Description

- Converts crude oil into refined products, including gasoline, diesel, jet fuel and asphalt
- Provides 18% of Canada's refining capacity for domestic markets
- Markets refined petroleum products and services through a nationwide network of retail and wholesale outlets
- Canada's second largest marketer, with a 17% share of the refined products market
- Manufactures and markets high-quality specialty lubricants

Strategy

- Generate superior returns and growth by building on our strengths in niche refining markets, being the brand of choice for Canadian consumers, and maximizing sales of high-margin specialty products

1999 Achievements

- Boosted refinery crude unit utilization to 100% from 95% in 1998
- Matched 1998 record asphalt sales of 1.4 billion litres
- Total petroleum product sales increased 4.4%, outpacing market demand increase of 1.3%
- Average throughput per retail site reached 3.6 million litres, highest among the national integrateds' total networks
- Increased total sales of lubricants by 8.0%, to 725 million litres

Plans for 2000

- Maintain high utilization and enhance focus on safe, reliable and efficient plant operations
- Position refineries to meet future environmental regulations, particularly for fuel reformulation
- Further increase throughput per retail site and non-petroleum revenue
- Further increase sales of high-margin lubricants through North American distribution agreement with Witco Corp.

GRAND BANKS OIL:
OUR CORNERSTONE FOR GROWTH

HIGHLIGHTS

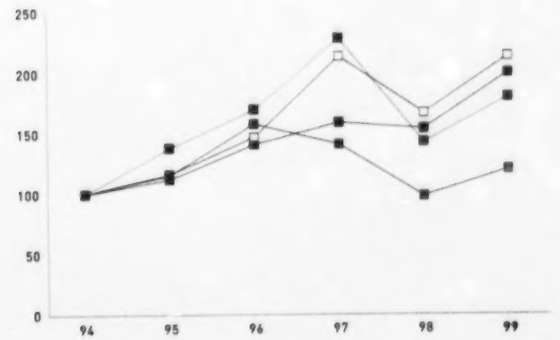
100-04083/

(stated in millions of Canadian dollars, unless otherwise indicated)	1999	1998	1997
FINANCIAL			
Earnings from operations (in 1998, before reorganization costs)	**236**	130	314
Net earnings	**233**	95	306
Cash flow[1]	**964**	830	1 263
Per common share (dollars)			
Earnings from operations (in 1998, before reorganization costs)	**0.87**	0.48	1.16
Net earnings	**0.86**	0.35	1.13
Cash flow	**3.55**	3.06	4.66
Dividends	**0.34**	0.32	0.26
Expenditures on property, plant and equipment and exploration	**1 021**	1 116	1 049
Return on capital employed (per cent)	**5.6**	3.0	6.8
Cash flow return on capital employed (per cent)	**18.6**	16.3	24.5
Debt	**1 711**	1 829	1 741
Debt to debt plus equity (per cent)	**29.5**	31.7	30.7
Debt to cash flow (times)	**1.8**	2.2	1.4
Operating return on capital employed (per cent) (in 1998, before reorganization costs)	**5.6**	3.6	6.9
OPERATING			
Crude oil and field natural gas liquids production, net before royalties (thousands of barrels per day)	**95.3**	101.1	95.1
Natural gas production, net before royalties, excluding injectants (millions of cubic feet per day)	**719**	722	760
Proved oil and field natural gas liquids reserves, net before royalties (millions of barrels)	**476**	476	432
Proved natural gas reserves, net before royalties (trillions of cubic feet)	**2.5**	2.5	2.5
Refined petroleum product sales (thousands of cubic metres per day)	**51.2**	49.1	48.5
Refinery crude capacity utilization[2] (per cent)	**100**	95	103

1 Cash flow from operations before changes in non-cash working captital items.
2 Total daily rated refinery capacity was increased to 49.0 thousand cubic metres per day, from 45.4 thousand cubic metres per day, as a result of a reassessment in the fourth quarter of 1998.

FIVE-YEAR SHARE PRICE PERFORMANCE

During 1999, Petro-Canada shares appreciated 25.8 per cent.



(December 31, 1994 = 100)
Changes in yearly closing values for Petro-Canada common shares compared with the Toronto Stock Exchange 300 index, the Integrated Oils sub-index and the Oil & Gas Producers sub-index.

- Petro-Canada
- Toronto Stock Exchange 300 index
- Integrated Oils sub-index
- Oil & Gas Producers sub-index

TO OUR SHAREHOLDERS

Petro-Canada delivered sharply improved results in 1999, gaining a strong boost from higher commodity prices.

With robust cash flow adding to our solid financial position, we will invest $1.2 billion in 2000 to strengthen our core businesses and advance our growth opportunities. At the same time, we will focus on improving the cost-competitiveness, reliability and financial performance of our operations.

Shareholders have not yet been appropriately rewarded for their faith in our Company. The industry as a whole has been out of favour in equity markets, despite rising commodity prices. But we must also acknowledge that Petro-Canada has not fully realized the potential of its outstanding portfolio of assets and opportunities to create value for investors.

We intend to deliver on Petro-Canada's potential, through a disciplined effort to improve performance and a focused investment approach to ensure profitable growth.

Improved Business Environment

A dramatic rise in oil prices and stronger natural gas prices created a much-improved climate for the oil industry by the end of 1999. Prices for West Texas Intermediate benchmark crude rose from a low of U.S.$11.37 in February to U.S.$27.07 in November. Higher prices were the key factor enabling our Upstream business to achieve record earnings from operations of $243 million, up from $29 million in 1998.

Higher commodity prices had the opposite effect in the Downstream, raising feedstock and fuel costs. Efforts to recover higher costs met resistance in the marketplace, especially as these costs – and therefore the price at the pump – continued to rise through the year. Successful marketing efforts increased sales volumes. However, historically low refining margins and lower differentials for heavy feedstock reduced earnings. Our Downstream had earnings from operations of $115 million, down from $204 million a year earlier.

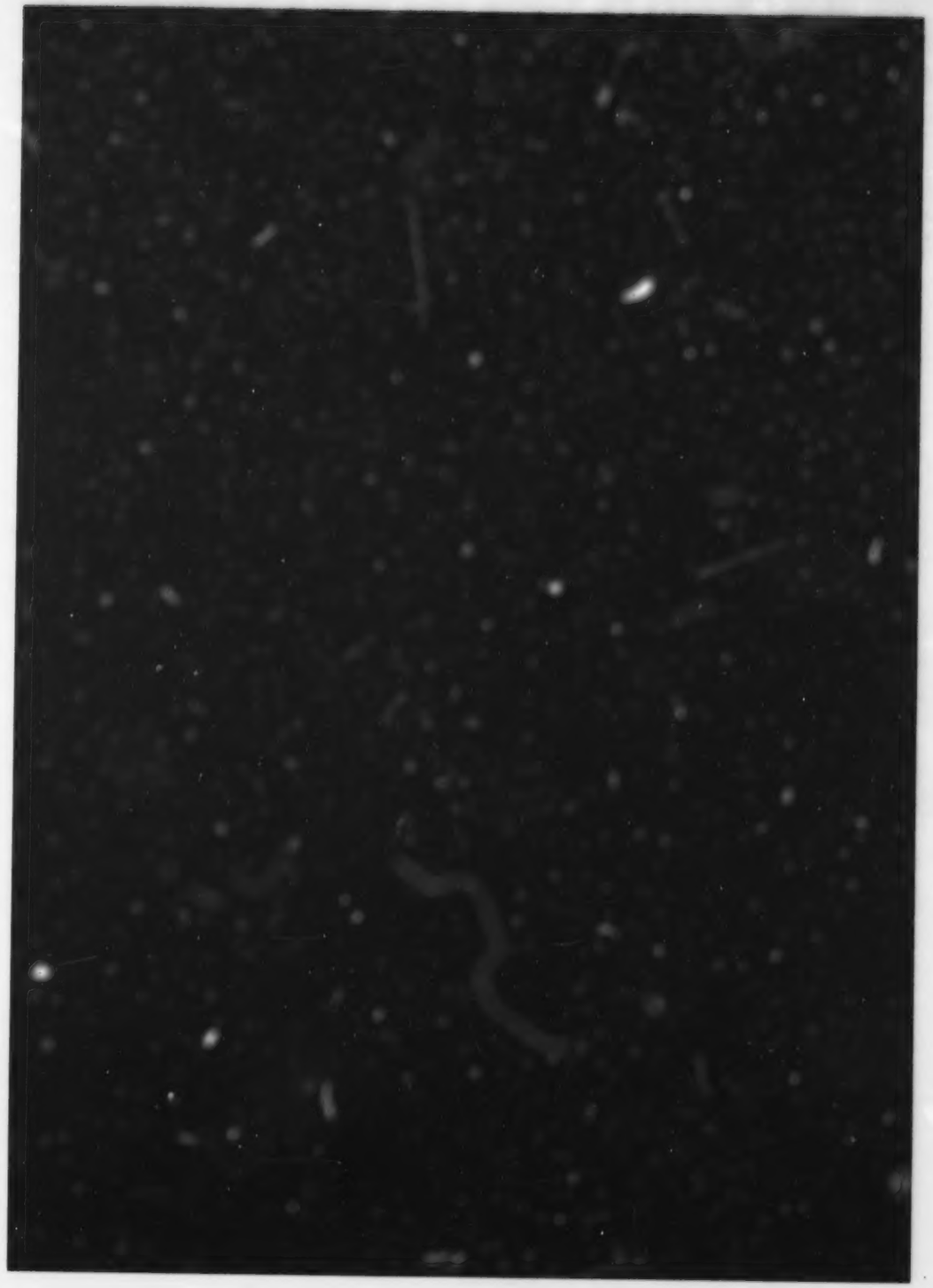
Overall, the combination of higher oil and gas prices and improved product sales and mix led to net earnings of $233 million for 1999, up from $95 million in 1998. Cash flow was $964 million, up from $830 million a year earlier.

Recognizing our strong financial position, higher cash flow, and our shareholders' need for improved returns, the Board approved a 25 per cent increase in the dividend on our stock in the fourth quarter.

Operational Highlights in 1999

Petro-Canada continued to strengthen and grow its core businesses of Grand Banks oil, oil sands, natural gas, and refining and marketing during 1999.

By year end, the Hibernia oil field was producing 150 000 barrels per day, of which 30 000 accrue to Petro-Canada. Production earlier in the year was limited by startup problems with the platform's gas compressors, which came on stream in January. When gas injection is unavailable, oil production must be restricted, and Petro-Canada's production over the year averaged less than



Ron Brenneman became President and Chief Executive Officer on January 10, 2000. A Canadian coming from a 31-year career in a large Canadian and international oil organization, he brings to Petro-Canada a global perspective and deep experience spanning upstream, downstream and corporate leadership.

expected at 20 000 barrels per day. Reservoir performance was excellent, however, leading us to raise our estimates of Hibernia's ultimate reserves by 19 per cent, to 730 million barrels (146 million barrels to Petro-Canada).

Preparations continued for production at Terra Nova, which is now expected to be on stream by the second quarter of 2001. "Glory holes" were completed to protect subsea wellheads, and production wells began drilling in July, while the production vessel nears completion. Offshore drilling in 1999 included encouraging delineation wells at White Rose and Hebron/Ben Nevis.

In Western Canada, we more than replaced our natural gas production with new reserves through the drill bit, and held production steady despite some asset sales. In particular, our Wildcat Hills/Benjamin Creek play continued to add substantial reserves and production.

In the Downstream, Petro-Canada continued to gain momentum in the marketplace. Refined product sales volumes rose 4.4 per cent, outpacing market demand growth of 1.3 per cent.

In May, we launched new clean gasoline blends using our TACTROL deposit control additive. SuperClean gasoline, together with WinterGas and other products targeted to Canadian driving conditions, achieved strong market response. Our Petro-Points loyalty program continued to expand, engaging 4.3 million households by year end. Throughput per retail site rose again as the roll-out of our efficient new-image outlets continued.

A Disciplined Approach to Performance

The Company's overall performance and profitability will be the focus of management's immediate attention. Employees achieved improvement in several controllable areas in 1999. Price realizations and operating costs improved in natural gas, as did Downstream per-unit operating and overhead costs and contribution from non-petroleum products and services. Hibernia and Syncrude operating costs declined, with further reductions expected in 2000 and future years.

These gains are a good start, but Petro-Canada's overall cost performance and projections are not what they should be. We are beginning the year 2000 with a detailed analysis of the company's cost structure to identify opportunities for improvement. Our aim is to achieve first-quartile cost performance in each of our businesses.

Reliability will also be a focal point in 2000 and beyond. Improving operating reliability by minimizing unplanned shutdowns is the most effective way we can add volumes. We believe Hibernia is approaching steady-state reliability, and we continue to emphasize reliability in Western Canada Upstream operations. While our Downstream achieved 100 per cent crude capacity utilization in 1999, the reliability of the value-adding conversion units did not approach that level. Improvement in reliability will have a direct payoff in profitability.

Ron Brenneman
President and Chief Executive Officer

Jim Stanford
Chairman of the Board

Strategic Focus

The Company has a broad base of assets in its core businesses. The profitability and potential of these assets will be examined closely to ensure each is contributing to overall bottom-line results. Petro-Canada also has a tremendous portfolio of future opportunities, and the financial strength to pursue them. We will focus on those opportunities that play to our strengths, and where our position and capabilities give us competitive advantage.

Many potential Upstream opportunities have already been identified. Proved reserves are booked only after development drilling is well advanced. But our total probable and possible reserves inventory available for development – on the Grand Banks, in the oil sands, in Western Canada and internationally – is well over 1.5 billion barrels, more than double the proved reserves on our books.

Grand Banks oil is the cornerstone of our growth strategy. We expect daily Hibernia production to average 135 000 barrels in 2000 and approach plateau levels of 160 000 barrels (32 000 to Petro-Canada) in 2001. Terra Nova will come on stream in 2001, with production at year end targeted at close to 130 000 barrels per day (37 000 to Petro-Canada). We are optimistic that further drilling and economic evaluation of White Rose and Hebron/Ben Nevis will confirm their attractiveness as major stand-alone developments.

Petro-Canada shares in every major oil discovery to date on the Grand Banks. So far, drilling has focused on the Jeanne d'Arc Basin, only one of several prospective basins off Newfoundland. In 2000, we will begin exploration in the Flemish Pass, a lightly explored basin in deeper water that is accessible with today's production technology. We will also drill new prospects in the Jeanne d'Arc.

Growth will also come from our other core businesses. We are increasing our focus on natural gas and oil sands in Western Canada, divesting most of our remaining conventional oil and our natural gas liquids business early in 2000. Capital spending on Western Canada conventional activity will rise by 40 per cent to nearly $400 million in 2000, mostly for gas exploration and development in the Alberta Foothills and northeastern British Columbia.

We are looking further afield for future resource additions. Seismic work began early in 2000 on large holdings acquired in 1999 in the Mackenzie Delta, in the Northwest Territories, and will begin this summer on the Scotian Shelf, offshore Nova Scotia. Both are longer-term, higher-risk plays with good potential. Further successful exploration in the Mackenzie Delta is needed to identify the threshold reserves required for construction of a pipeline to link the region to the North American grid. The Scotian Shelf acreage is in the vicinity of the Sable Gas development, which came on stream in 1999, providing infrastructure to access the United States market.

In oil sands, expansion of Syncrude will raise our share of production from 30 000 barrels per day in 2000 to more than 50 000 by 2007. We are actively evaluating an *in situ* opportunity on Petro-Canada lands at MacKay River, which could be an attractive development, beginning at 22 000 barrels per day or more.

We will take a measured approach in pursuing these Upstream opportunities – and others we may identify beyond our present portfolio – taking appropriate risk but driving to exceed cost of capital returns in any development we undertake.

In the Downstream, we will continue to leverage our brand strength and excellent refining network, and implement plans to realize the potential of our lubricants business. A major challenge in coming years will be preserving our competitive position and improving our cost structure while finding the most economic approach to the investment required to comply with new fuel regulations.

TOTAL RESERVES INVENTORY

Our large reserves inventory provides a strong base for future growth.

■ Proved reserves *(millions of barrels of oil equivalent)*

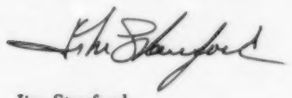
□ Probable and possible reserves *(millions of barrels of oil equivalent)*

Our Second Quarter-Century

In closing, we would like to acknowledge the significant contribution of Tom Kierans over his four years as Chairman of the Board. Tom relinquished the position in January 2000, while remaining a director. We also thank Gerry Maier, a director from April 1995 to January 2000, for the benefit Petro-Canada gained from his experience and wisdom. In addition, Wesley Twiss retired as Executive Vice-President and Chief Financial Officer in January 2000. We thank Wesley for his 16 years of service, and welcome Harry Roberts to the Executive Leadership Team as our new Senior Vice-President and Chief Financial Officer. Harry joined Petro-Canada in 1989 following 15 years in the petroleum and financial industries, and was most recently Vice-President, Finance and Planning, and Treasurer.

Petro-Canada begins its second quarter-century in 2000. We are encouraged by the more positive fundamentals in our business environment and tremendously excited by the opportunities open to Petro-Canada. As our capable and committed employees celebrate our silver anniversary, we rededicate ourselves to our mission of building value for our shareholders and opportunity for our Company in the years ahead.

Ron Brenneman
President and Chief Executive Officer

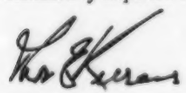


Jim Stanford
Chairman of the Board

I had the privilege to serve as Chairman of the Board from 1996 to January 2000, when I stepped aside to enable the appointment of Jim Stanford as Chairman, in recognition of the very fine job he has done as President and Chief Executive Officer since 1993.

About a year ago, Jim expressed his desire to retire, and the Board began a search to identify a successor. I am very pleased we were able to recruit an individual with the superb qualifications of Ron Brenneman, who became President and Chief Executive Officer on January 10, 2000. With 31 years in upstream, downstream and corporate leadership roles, he has experience both broad and deep. And with international as well as Canadian experience in one of the world's largest integrated petroleum organizations, he brings a global perspective and a rich background to Petro-Canada.

On behalf of the Board, I want to commend and thank Jim Stanford for his tremendous contribution to Petro-Canada as President and CEO. Having joined Petro-Canada in 1978, he took the helm in January 1993, and led a dramatic financial turnaround. Setting a clear business direction, he earned Petro-Canada the respect of the financial world. And with his commitment to investing in the community and setting a high standard of corporate responsibility, he won for Petro-Canada an honoured place in Canadian society.



Tom Kierans
Director
Chairman of the Board (April 1996 to January 2000)

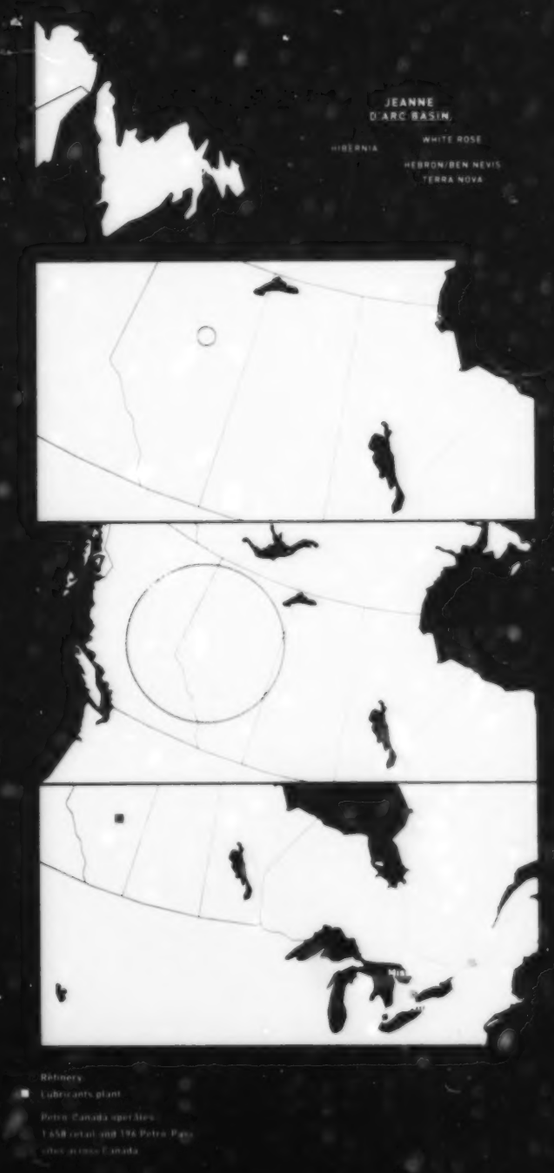
WE WILL PROVIDE PROFITABLE GROWTH AND SUPERIOR PERFORMANCE THROUGH OUR FOUR CORE BUSINESSES.

UNMATCHED POSITION

EXPANDING SYNCRUDE PRODUCTION

STRONG BASE, IMPROVING PERFORMANCE

CANADA'S BRAND OF CHOICE

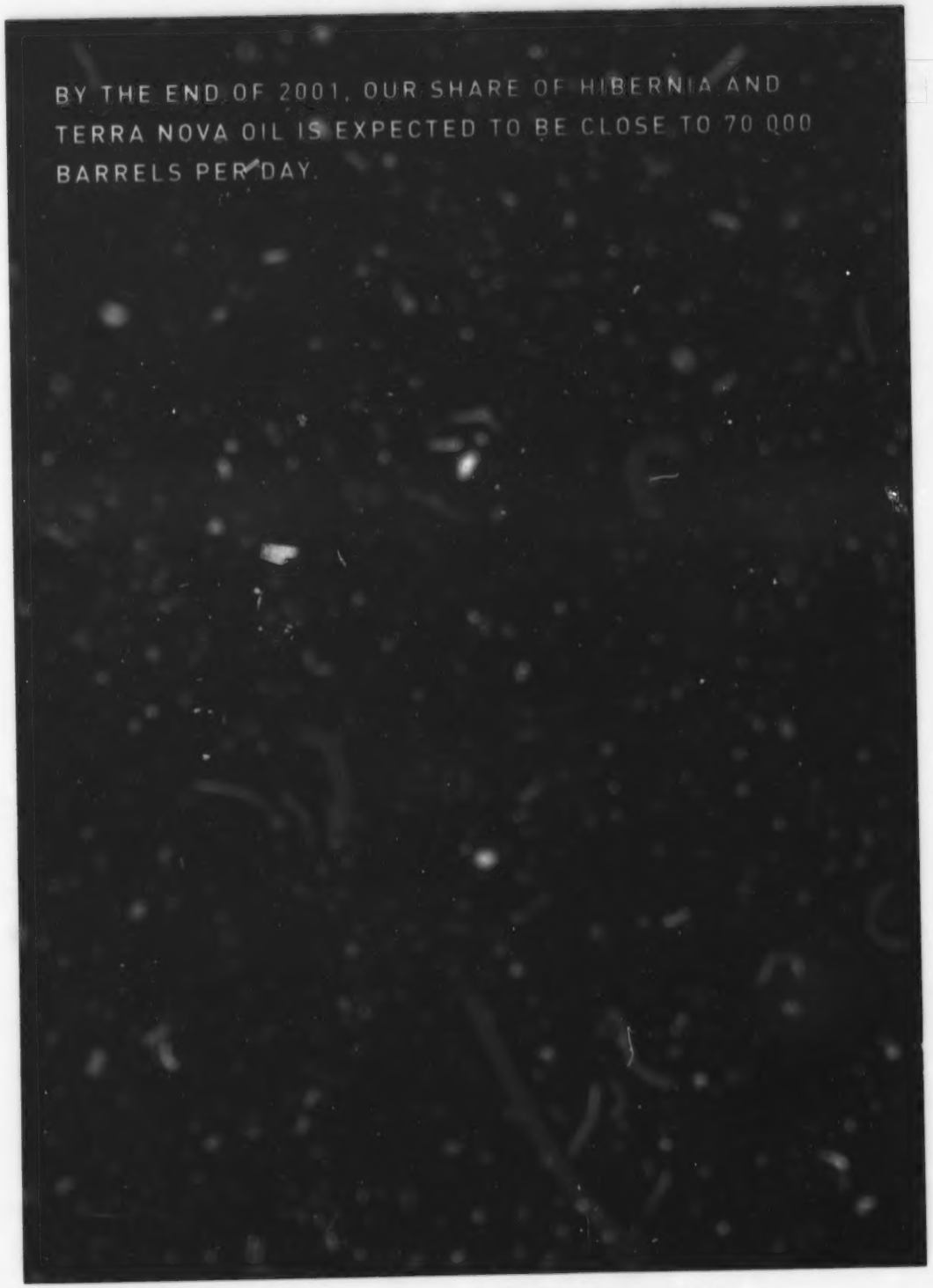


GRAND BANKS OIL

WE EXPECT TO PRODUCE UP TO 100 000 BARRELS OF OIL PER DAY FROM OFFSHORE NEWFOUNDLAND BY 2005.

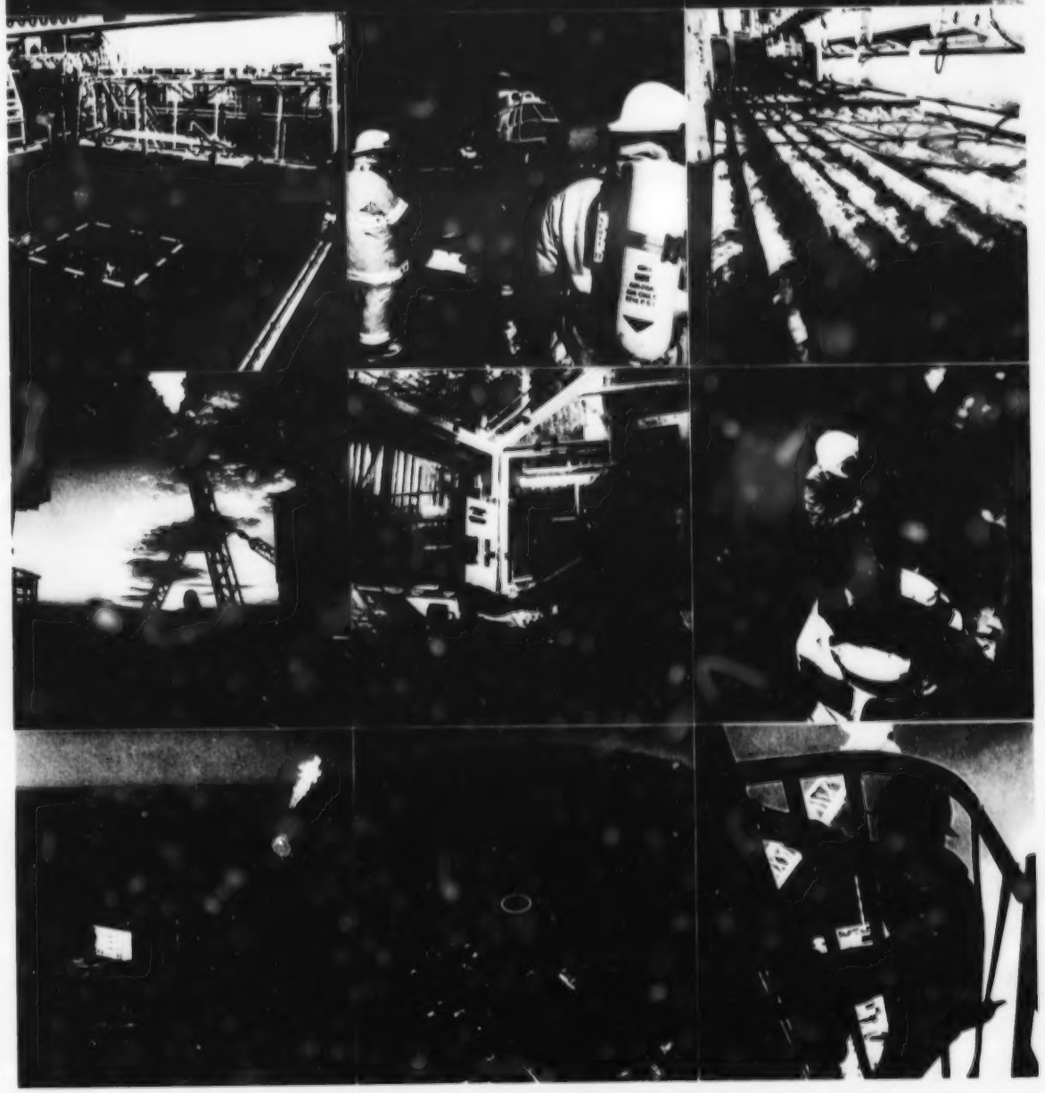
In the Port of St. John's, the Ikuma Spirit prepares for another voyage to support drilling in the Terra Nova field 350 kilometres distant. Five wells will be drilled this year, and first oil is expected by the second quarter of 2001.

BY THE END OF 2001, OUR SHARE OF HIBERNIA AND TERRA NOVA OIL IS EXPECTED TO BE CLOSE TO 70 000 BARRELS PER DAY.



Terra Nova's production and storage vessel — nearing completion in South Korea — will be able to process 140 000 barrels of oil per day, store 960 000 barrels and house up to 80 workers.

WITH INTERESTS IN EVERY MAJOR GRAND BANKS DISCOVERY — AND ACREAGE ADDED IN EACH OF THE PAST FOUR YEARS — WE'RE WORKING TO IDENTIFY AND DEVELOP THE BEST OFFSHORE OPPORTUNITIES.

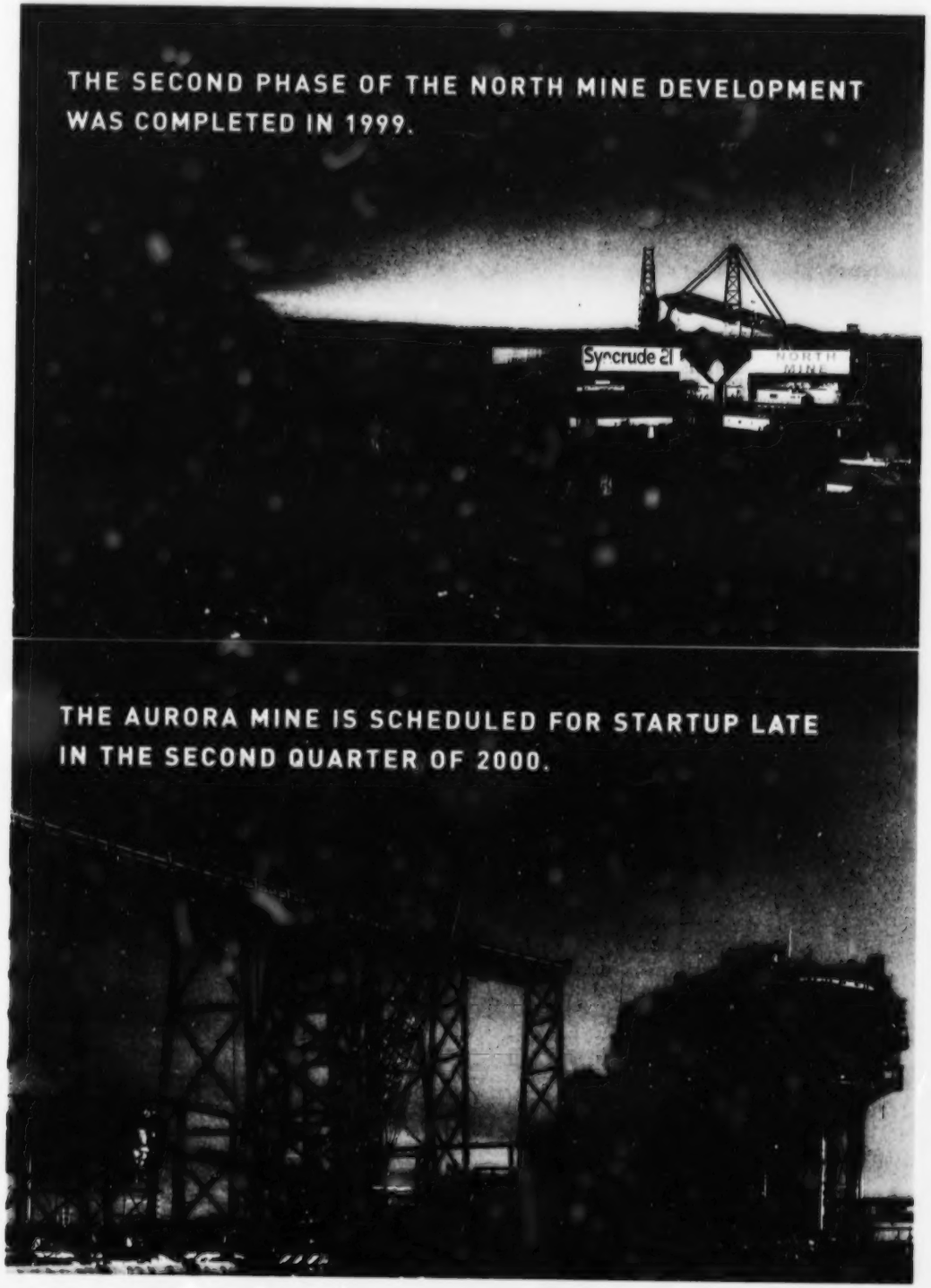


EXPANSION OF SYNCRUDE WILL BOOST OUR SHARE OF SYNTHETIC CRUDE FROM 26 700 BARRELS PER DAY TO MORE THAN 50 000 BY 2007.

The large bitumen deposits now being tapped from Syncrude's North Mine will replace declining production from the East Mine. Now coming from the North Mine helped Syncrude post record production in 1999.

SYNCRUDE EXPECTS TO DRIVE OPERATING COSTS DOWN
TO ABOUT $11 PER BARREL BY
PETRO-CANADA WILL BE AN ACTIVE PARTICIPANT
IN FURTHER DEVELOPMENT OF NORTHERN ALBERTA'S
VAST OIL SANDS RESOURCES

Hydraulic shovels (top) scoop more bitumen per load, saving time, energy and money; *in situ* production at Mackay River (bottom) could begin at 22 000 barrels per day or more.


THE SECOND PHASE OF THE NORTH MINE DEVELOPMENT
WAS COMPLETED IN 1999.
Syncrude 21
THE AURORA MINE IS SCHEDULED FOR STARTUP LATE
IN THE SECOND QUARTER OF 2000.